

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

BOARD ACTIONS FEBRUARY 3, 2000

Prompt Corrective Action Rule Finalized

The NCUA Board adopted final Prompt Corrective Action rules, Part 702, 741, and 747 in response to the *Credit Union Membership Access Act* requirement that NCUA adopt a new system of net worth standards and actions to restore the net worth of inadequately capitalized federally-insured credit unions.

Prompt Corrective Action (PCA) contains three main parts:

1. Basic PCA contains a frame work of mandatory actions prescribed by statute and discretionary actions developed by NCUA.
2. An alternative system of PCA for credit unions that CUMAA defined as new – those in operation less than ten years and \$10 million or less in assets.
3. A risk-based net worth requirement to apply to credit unions that NCUA defines as “complex.” The risk-based net worth requirement is the subject of a separate proposed rule.

The final rule has five subparts:

- Subpart A includes the five statutory net worth categories and how each credit union determines its own classification.
- Subpart B establishes a framework of mandatory and discretionary supervisory actions in relation to the five net worth categories, and implements statutory criteria that trigger conservatorship and liquidation.
- Subpart C establishes a similarly-structured alternative system of PCA for “new” credit unions.
- Subpart D restates reserve and dividend payment requirements, which have been modified.
- Subpart L establishes a process credit unions and officials can use to appeal NCUA decisions.

Effective August 7, 2000, the final rule will apply to each credit union’s net worth ratio reported on call reports begin-

February 2000, Number 2

HIGHLIGHTS

News Briefs	2
Board Actions	3
FCU Returned to Member Control	3
Electronic Exams	4

ning with January 22, 2001. NCUA will issue a *Letter to Credit Unions* this fall providing the basics of PCA. The letter will include a **sample** of the new call report form that credit unions can use on third quarter financial data to test the four alternatives for selecting a method of calculating total assets, which is the denominator of the net worth ratio.

Noting the significant, far-reaching changes this rule includes, the Board rec-

continued on page 3

Community Celebrates Rebirth of Central Brooklyn FCU



January 21, 2000, Brooklyn, N.Y. —From the left, Chairman Norman E. D’Amours, State Senator Velmanette Montgomery, and Board Member Dennis Dollar at the community celebration marking the healthy rebirth of Central Brooklyn FCU.



Central Brooklyn Advisory Board President Akilah Pannigan (left) and Board of Directors President Sydney Wayman look on as Chairman D’Amours signs the certificate of service officially returning Central Brooklyn FCU to its members control.

News Briefs

CLF, Revolving Loan Fund Hearing —

The House VA HUD Subcommittee on Independent Agencies scheduled March 28 for its annual hearing on the Central Liquidity Facility operations, its borrowing authority and the Community Development Revolving Loan Fund. This year the subcommittee will also consider a one-time \$1 million appropriation for technical assistance on behalf of designated, low-income credit unions.

CLF Borrowing Authority — The NCUA is asking Congress to extend the maximum, approximately \$21 billion, CLF borrowing authority that Congress approved for a single year in 1999 to ensure the Agency was prepared to meet possible Y2K liquidity needs.

Home Mortgage Disclosures — The exemption threshold for reporting home mortgage disclosure information was raised to \$30 million effective January 1, 2000. Based on fluctuations in the consumer price index, the Federal Reserve Board amended Regulation C (Home Mortgage Disclosure) whereby depository

institutions with assets of \$30 million or less at Dec. 31, 1999, are not required to collect HMDA data in 2000.

Revised Report of Officials — An updated, electronic Report of Officials went to federally insured credit unions along with *1999 Yearend Call Reports*. The new, electronic report will make it easier for credit unions to update their list of officials, which is submitted to NCUA on disk or paper after annual meeting elections.

Expansions—During 1999, operating under new regulations that once again allow credit unions to expand their fields of membership, between Jan. 1 and Dec. 31 a reported 1,431 credit unions expanded their charters to include 16,290 separate groups. The average size group added 95 people. Between Jan. 1 and Feb. 11, 2000, it's reported 512 credit unions expanded to serve an additional 1,532 groups. The average size group is 98 people.

Bankruptcy Reform—Bankruptcy Reform has resurfaced. The Senate has approved its version of the legislation that the House passed last year. A joint conference to work out their differences is yet to be scheduled, so final passage of bankruptcy reform probably remains months away.

Fair Lending Examinations—Twenty-nine NCUA examiners and analysts attended fair-lending training and are now conducting fair lending exams. This group will reconvene in April to share information and prepare a briefing paper to share their knowledge and provide a resource for credit unions concerned with fair lending issues.

NCUSIF Equity Level — The NCUSIF equity level declined to 1.29 percent January 31, 2000, based on an estimated insured-share base of \$337.6 billion at December 31, 2000. During January 2000, three credit unions failed. One was purchased and assumed by another credit union and two merged with assistance.

Operating Fee, NCUSIF Refunds and Adjustments — NCUA will issue an invoice to federally insured credit unions in March, as applicable, for the 2000 operating fee and any adjustment necessary to maintain the required 1 percent deposit in the National Credit Union Share Insurance Fund. Credit union operating fee and capitalization deposit adjustments are based on assets and insured shares at December 31, 1999. Refunds for credit unions that experienced a decline in insured shares during 1999 will be issued February 25.

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Yolanda T. Wheat, Board Member
Dennis Dollar, Board Member

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

Robert E. Loftus, *Director,*
Office of Public and Congressional Affairs
Cherie Umbel, *Editor*
Barbara Walker, *Graphics*

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428



February 7, 2000, Wash., D. C. - NCUA Board Member Yolanda Townsend Wheat with Women In Housing and Finance (WHF) President-elect Nancy Camm and WHF co-founder Mary Dunn of CUNA. Wheat addressed the group of Washington policymakers on the responsibility of regulators to do what they can to eliminate abusive predatory lending practices. Wheat also told the group that credit unions serve as a real alternative to payday lenders. Accordingly, she said that the NCUA is in the process of developing a nationwide database to identify low-income and financially underserved communities so examiners can deliver this information directly to federal credit unions to enable credit unions to expand their services.

BOARD ACTIONS FEBRUARY 3, 2000

continued from page 1

ommended the Prompt Corrective Action Task Force, which crafted the rule, remain in place and return to the Board in the fall of 2001 to recommend any necessary modifications.

Risk-Based Net Worth Requirements Proposed

In conjunction with the adopted Prompt Corrective Action rule, the NCUA Board also issued a proposed rule that defines a "complex" credit union, based on the risk level of assets and liabilities, and establishes a risk-based net worth requirement that applies to a "complex" credit union.

The proposal would implement a three-step process. First, each credit union must determine if it is "complex" based on specified thresholds in four risk categories. Second, credit unions that meet the definition of "complex" will use eight weighted components to determine risk-based net worth requirements to be adequately capitalized. The third step gives complex credit unions the opportunity to substitute any of three specific risk-based net worth components with an alternative component that may reduce requirements.

Using June 1999 call report data, NCUA estimated that 1490 federally-insured credit unions qualify as "complex." Of these, only 35 were estimated to fail their risk-based net worth requirement and be categorized "undercapitalized."

NCUA incorporated comments solicited from an advance proposal issued in October 1999, worked with the National Association of State Credit Union Supervisors, and considered comments from the US. Treasury and federal financial regulators in drafting this proposal.

Pilot Derivative Investment Program Approved

The NCUA Board approved, in closed session, the application from Western Corporate Federal Credit Union ("WesCorp") to offer derivatives to up to 50 of its member federal credit unions to hedge interest rate risk. WesCorp has established a number of rigorous criteria for a credit union's participation in their program. Among other items are the participating credit union's financial capacity, accounting and policy requirements, internal controls and infrastructure. WesCorp will also provide education and training for participating credit union staffs and boards.

Part 703 of the *NCUA Rules and Regulations* permits credit unions and others to apply for permission to participate in investment pilot programs. The intent of this provision is so NCUA can subsequently develop appropriate regulations and examiner guidance and training. WesCorp's application was approved under this provision.

BOARD ACTIONS JANUARY 13, 2000

Charter Conversion

The NCUA Board granted the request to convert \$268 million Universal Campus Federal Credit Union, Provo, Utah, from a multiple group to a community charter able to serve the residents of Utah County, Utah.

Corporate Gains National FOM

The NCUA Board approved Western Corporate FCU's (WesCorp), San Dimas, Calif., request to expand to serve a national field of membership. An NCUA review found the \$11.4 billion corporate has the necessary information systems, staff, compliance, legal, and risk assessment capabilities to serve and maintain a national FOM.

Corporate Converts to Federal with a National Charter

The NCUA Board approved the request of Corporate One Credit Union, Inc., Columbus, Ohio, to convert to a federal charter serving a national field of membership.

The \$1.2 billion Corporate One was chartered in 1984 by the State of Ohio and essentially has a national FOM. The corporate, which meets all NCUA requirements to serve a national FOM, seeks conversion to a federal charter to achieve tax and operating expense savings, and to simplify the process to serve credit unions nationwide.

Votes are unanimous unless otherwise noted.

Polish and Slavic FCU Returned to Member Control

The NCUA Board voted February 3, 2000, to return control of Polish and Slavic Federal Credit Union, Brooklyn, New York, to its members. Assets, capital and membership grew and all material concerns were resolved during the credit union's ten month conservatorship.

Following the NCUA Board vote, Chairman Norman E. D'Amours said, "I

commend everyone among the credit union's membership and at NCUA who worked diligently to return control of Polish and Slavic FCU to its members less than a year after NCUA was forced to activate its conservatorship authority."

Polish and Slavic Federal Credit Union is a \$600 million operation serving 49,000 members.

Region II Conducts Pilot Electronic Transaction Exams

Region II recently completed exams of electronic transaction services at 24 credit unions offering these services through web sites or dial-up software, and so far, credit unions have passed with flying colors. Tawana Y. James, Region II Regional Director, reports, "For the most part, we're very pleased with what we're seeing – while there have been some minor operational issues in some credit unions, they are all taking adequate steps to guarantee the security of member information." The feedback from credit unions has been positive as well.

Completing the 24 exams concludes the pilot program Region II began in September 1999, after noting the increasing number of credit unions offering electronic transaction services. Last summer, the General Accounting Office criticized NCUA at a Congressional hearing for not having a program of examination for credit unions offering electronic financial services.

According to James, oversight of credit unions' electronic services can be time-consuming, with each exam taking an average of three days. Among the items requiring review are planning and implementation, operating policies and procedures, auditing programs, legal and regulatory matters, vendors and outsourcing arrangements and contingency plans.

Examiner Training Scheduled

Electronic transaction examination procedures, being developed by contractors with assistance from NCUA, will be included in training provided to all examiners during NCUA's semiannual regional training conferences scheduled this summer in San Antonio, Las Vegas and Miami.

Electronic transaction oversight at NCUA includes:

- develop examination policies and procedures;
- identify and monitor credit union web sites;
- develop training;
- maintain current industry programs for field staff;
- issue *Letters to Credit Unions, Instructions, and Bulletins*;
- draft a section in the *Examiner's Guide*; and
- gain knowledge in areas that impact credit union electronic financial services.

NCUA will also develop examination procedures to review information system vendors and will enhance the agency's vendor database to include additional risk management information.

ABOUT INVESTMENTS

Is ALM Policy Required?

Must a credit union have an asset-liability management (ALM) policy? It is not required by either the *Federal Credit Union Act* or *NCUA Rules and Regulations*, but it is sound business practice.

If a credit union only offers personal and auto loans, invests in short-term, simple securities without embedded options (e.g., calls and caps) and offers short-term share certificates in addition to regular shares, its ALM policy can be simple. The policy may limit loan maturities, establish the minimum amount of short-term funds required to meet liquidity needs and restrict investments to simple, short-term securities.

If a credit union has or intends to have a more complex balance sheet, particularly if it has mortgage loans, mortgage-backed securities or collateralized mortgage obligations, the scope of its ALM policy should be more comprehensive. The policy should specify risk limits and the credit union should have methods to measure, monitor and control risk along with procedures to report this information to both the asset-liability management committee and the board.

Also, the policy should specify duties of those associated with these functions, including the division of responsibilities, and to the extent possible, there should be a separation between the risk taker and the person measuring risk.

NCUA News

National Credit Union
Administration
1775 Duke Street
Alexandria, VA 22314-3428

FIRST CLASS MAIL
POSTAGE AND FEES PAID
NCUA
PERMIT No. G-88